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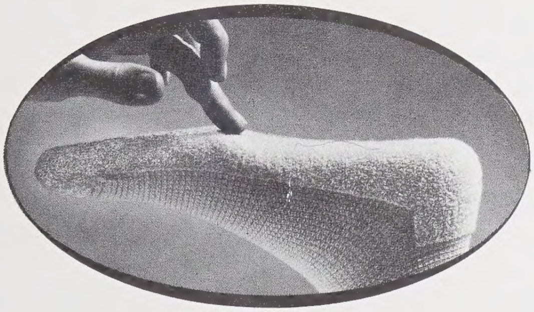


Harvey Woods

1967 ANNUAL REPORT

TO THE SHAREHOLDERS

Your Directors submit herewith the Annual Report of the Consolidated Operations of your Company and its Subsidiary Companies for the year ended December 31, 1967.

Earnings

The Net Loss for the year of \$94,000 compares with the Net Profit in 1966 of \$147,000 after provision for depreciation of \$200,000 in 1967 and \$216,000 in 1966. No income taxes were payable by the parent company in 1967 or in 1966. Income taxes payable by subsidiaries were \$4,000 in 1967 and \$21,000 in 1966. Dividends totalling 20¢ per Class A share were paid during the year as compared to 60¢ per Class A share in 1966. Dividends have been omitted since June 1967 to conserve Working Capital.

Working Capital

Details of the change in Working Capital are given in the Consolidated Statement of Working Capital. At December 31, 1967, Working Capital stood at \$2,690,000—\$205,000 lower than at December 31, 1966.

1967 Operations

A number of elements contributed to the unsatisfactory operating results noted above.

Sales plans were not achieved for a number of reasons, chiefly the overstocked position of the majority of retail stores. Although the latter situation still prevails to some extent, it now appears that retail store inventories are more nearly in line with requirements, it being noted that retailers increasingly expect the manufacturer to maintain "instant" stock which has the effect of increasing the manufacturer's inventory.

Operating costs were higher than budgeted for many reasons, including increased labour costs (the result of the labour contract negotiated early in the year), a continuing high rate of labour turnover, larger inventories than in retrospect were required, the effect of a strike of one of our major suppliers, and higher financial charges. In addition, inventory write-down costs were greater than normal historical experience indicated.

The industry generally has had a somewhat similar experience as has been borne out by other financial statements.

Capital Additions amounted to \$144,000 (\$401,000 in 1966).

1968 Prospects

A substantial improvement in Operating Results is not expected in 1968, but it should be a year of stabilization as a result of several factors, including a reasonable increase in sales.

A re-engineering and reorganization of the Lingerie Division was undertaken last year and is now virtually complete, and a re-engineering and reorganization of the Underwear Division is now well under way and should be completed this year. Similar plans are now being formulated for the Hosiery Division and certain other departments. To some extent product lines are being revamped in the light of inventory and customer demands. These changes will result in short term adverse results but should provide satisfactory long term benefits. Capital Expenditures in relation to these and all other programmes will not exceed those incurred in 1967.

By the end of this quarter or early in the second quarter the computer will be in operation, from which time benefits rather than costs will start to accrue. To date the planning, programming and conversion costs have been significant, and your management has taken the position that there is no other long term alternative for dealing with the variety of elements that are inherent in controlling and planning the business as now envisaged.

The inventory reduction programme instituted last year will be further developed mostly through the reduction of finished stock as raw material and in-process

inventories are now at or near appropriate levels. The reduction in finished stock inventories will be brought about by two matters—the reduction of excessive stocks which can be more readily controlled through computer application and less inventory will be required to service sales plans, as manufacturing lead times have been and will continue to be significantly reduced.

Raw material costs are changing. Wool and synthetic yarn prices and certain fabric prices are lower this year, but cotton prices are significantly higher—the result of a poor quality crop in the U.S.A. On balance raw material costs should be about the same as last year.

Labour costs continue to increase, but labour turnover has somewhat improved recently.

Prices of knit goods products are relatively stable and have not risen in proportion to the prices of other products, but cost pressures should change this condition in due course, subject to competition from imports.

Subsidiaries

Operating results of Thomson Research Associates Limited, Kroy Unshrinkable Wools Limited and Kroy,Inc., were each less profitable than in 1966, the result of less buoyant market activity in Canada and the U.S.A. Some improvement in the subsidiary operations in 1968 is anticipated.

General

The Half Year Report to Shareholders noted the results of the Kennedy Round negotiations and the simultaneous International Agreement on Anti-Dumping. The Knit Goods Industry must and will continue to forcefully demand the imposition of export quotas on other countries and effective measures to deal with dumping.

It is with deep regret that the Board of Directors records the death of Mr. J. D. Woods, O.B.E., who for many years was a Director and Senior Officer of the Company. His close connection with the Company dated from its earliest days and all associated with the Company will miss his warm understanding, assistance and leadership.

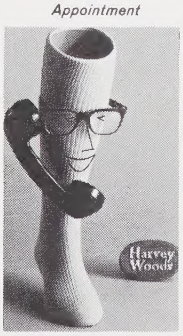
Your Directors wish to record appreciation of the thoughtful support and co-operation of all employees.

On behalf of the Board of Directors,

Toronto, Ontario,
March 1, 1968.

J. D. Woods,
President.

Harvey Woods Executive Appointment



Harvey Woods Executive Length Hose has been appointed the personal choice of executives who like comfort, neatness, superb quality and distinguished styling.

Harvey Woods

Harvey Woods Limited
(Incorporated under the laws of Ontario)
and subsidiary companies

Consolidate

December 31, 1967 (with comp

ASSETS

		1967	1966
		in thousands of dollars	
Current	Cash	$ 5	$ 4
	Accounts receivable less allowance for doubtful accounts of $35,000 at December 31, 1967 and 1966	2,033	1,874
	Inventories at the lower of cost and market value	3,969	4,445
	Prepaid expenses	118	142
	Total current assets	6,125	6,465
Fixed—at cost	Land	40	40
	Buildings	805	793
	Machinery, equipment, furniture and fixtures	2,538	2,521
	Cars and trucks	71	62
		3,454	3,416
	Less accumulated depreciation	2,245	2,145
		1,209	1,271
	Leasehold improvements at cost less accumulated amortization	28	31
	Total fixed assets	1,237	1,302
Total		$7,362	$7,767

Balance Sheet

ive amounts at December 31, 1966)

LIABILITIES

		1967	1966
		in thousands of dollars	
Current	Due to bank—inventories and accounts receivable pledged as security	$2,503	$2,557
	Accounts payable and accrued charges	703	823
	Sales and other taxes payable	144	131
	First mortgage bond payments due within one year	85	57
	Total current liabilities	3,435	3,568
First Mortgage Redeemable Bonds	Authorized and issued, less redeemed—		
Series A	3¼% sinking fund bonds due 1971	849	900
Series B	4% sinking fund bonds due 1971	319	344
		1,168	1,244
	Less payments due within one year included with current liabilities	85	57
	Total bonds less amount due within one year	1,083	1,187
Other	Minority shareholders' interest	7	15
Shareholders' Equity	Capital (note)—		
Authorized	500,000 Class A shares of no par value entitled to a fixed cumulative preferential dividend of 40¢ per share per annum		
	700,000 Class B shares of no par value		
Issued and Fully Paid	329,512 Class A shares 700,000 Class B shares	1,938	1,938
	Retained earnings	899	1,059
		2,837	2,997
Total		$7,362	$7,767

On behalf of the Board J. D. Woods, Director • John R. Woods, Director

NOTES

Cumulative dividends on Class A shares of $5 per share ($1,647,560 in the aggregate) are in arrears for the period June 30, 1953 to June 30, 1965 and the six months ended December 31, 1967.

The charter of the company restricts the payment of dividends on Class B shares if there are arrears of dividends on the Class A shares.

CONSOLIDATED STATEMENT OF INCOME

For the year ended December 31, 1967 (with comparative amounts for 1966)

		1967	1966
		in thousands of dollars	
	Sales	$9,689	$9,540
Costs and expenses	Cost of sales—excluding depreciation and amortization	7,583	7,260
	Marketing, general administration and shipping expenses	1,963	1,881
	Depreciation and amortization	200	216
	Bond interest	41	43
		9,787	9,400
	Income or (loss) from operations	(98)	140
Add	Profit on purchase of first mortgage bonds for redemption	8	4
	Dividends received		32
	Net income or (loss) before taxes	(90)	176
	Income taxes	4	21
		(94)	155
	Minority interest		8
	Net income or (loss) for the year	$ (94)	$ 147

NOTES

1. In the years 1967 and 1966 income taxes are payable on the earnings of the subsidiary companies only.

2. Aggregate direct remuneration paid by the companies during 1967 to directors and senior officers as defined by Section 71(1)(f) of The Corporations Act, Ontario amounted to $136,773 (1966—$143,750).

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended December 31, 1967 (with comparative amounts for 1966)

		1967	1966
	Balance, beginning of year	$1,059	$1,128
Add	Net income or (loss) for the year	(94)	147
	Profit on disposal of fixed assets		1
		965	1,276
Deduct	Loss on investment in Taylor Woods Limited		19
	Dividends paid on Class A shares	66	198
		66	217
	Balance, end of year	$ 899	$1,059

CONSOLIDATED STATEMENT OF WORKING CAPITAL

For the year ended December 31, 1967 (with comparative amounts for 1966)

		1967	1966
		in thousands of dollars	
Applications of working capital	Purchase for redemption of first mortgage bonds	$ 68	$ 21
	Purchases of fixed assets	144	401
	Dividends paid	66	198
	Increase in first mortgage bond payments due within one year	28	55
	Decrease in minority interest in subsidiary company	8	
	Sundry items	3	
		317	675
Sources of working capital			
Operations	Net income or (loss) for the year	(94)	147
	Depreciation and amortization	200	216
		106	363
	Less profit on purchase of first mortgage bonds for redemption	8	4
		98	359
Other	Sale of fixed assets	14	6
	Sale of investments		17
	Increase in minority interest in subsidiary company		15
		112	397
	Decrease in working capital	205	278
	Working capital, beginning of year	2,895	3,173
	Working capital, end of year	$2,690	$2,895

AUDITORS' REPORT

To the Shareholders of Harvey Woods Limited

We have examined the consolidated balance sheet of Harvey Woods Limited as at December 31, 1967 and the consolidated statements of income, retained earnings and working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1967 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

London, Canada.
February 19, 1968.

Clarkson, Gordon & Co.
Chartered Accountants.

DIRECTORS	W. P. Walker C. M. King John R. Woods G. D. Birks W. P. Wilder	R. Presgrave J. D. Woods N. D. Cook R. W. L. Laidlaw John A. Young
OFFICERS	J. D. Woods *President* N. D. Cook *Vice-President Marketing*	John R. Woods *Vice-President and General Manager* John A. Young *Secretary-Treasurer*

HEAD OFFICE	18 Vansittart Avenue, Woodstock, Ontario
EXECUTIVE OFFICE	70 Crawford Street, Toronto 3
TRANSFER AGENTS	The Royal Trust Company, 66 King Street West, Toronto 1
AUDITORS	Clarkson, Gordon & Co.
BANKERS	The Toronto-Dominion Bank
COUNSEL	McCarthy & McCarthy
OPERATING LOCATIONS	Toronto: *Kroy Unshrinkable Wools Limited* Woodstock: *Hosiery Division, Underwear Division, Lingerie Division*
SALES OFFICES	Vancouver · Edmonton · Winnipeg · Toronto · Ottawa · Montreal · Quebec
PRODUCTS	Hosiery • Underwear • Lingerie

Harvey Woods